

## Message Text

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ORIGIN L-03

INFO OCT-01 NEA-10 IO-14 ISO-00 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

ABF-01 FS-01 IGA-02 CIAE-00 INR-10 NSAE-00 /120 R

DRAFTED BY L/NEA:ATBROWN

APPROVED BY NEA/INS:DKUX

EB/IFD:SWEINTRAUB

TREAS:HLEE

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FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI IMMEDIATE

INFO USMISSION USUN NEW YORK PRIORITY

C O N F I D E N T I A L STATE 236931

USUN PASS MOYNIHAN

E.O. 11652: GDS

TAGS: EFIN, IN

SUBJ: RUPEES: MOV

REF: (A) NEW DELHI 14109; (B) NEW DELHI 14033;

(C) STATE 236127

1. WHILE WE WOULD GREATLY PREFER TWO-WAY MOV MECHANISM WITH A FLOOR AT CURRENT EXCHANGE RATE, WE PREPARED IN ORDER TO ACHIEVE AGREEMENT ON MAJOR OUTSTANDING ISSUE TO ACCEPT DOLLAR-DENOMITED MOV WITHOUT FLOOR. WORD (REF A) THAT GOI PREPARED TO AGREE TO DOLLAR-DENOMINAION OF OUR INITIAL STOCK OF DOLLARS 500 MILLION WORTH OF RUPEES OPENS WAY TO SOLUTION OF THIS PROBLEM. FOLLOWING IS LANGUAGE ACCEPTABLE TO US:

2. STRIKE THE MOV PARAGRAPH (PARA 8) ALTOGETHER AND AMEND PARA 2 OF PART II AS FOLLOWS:

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"2. THE GOVERNMENT OF INDIA SHALL MAKE THE FOREGOING PREPAYMENT OF PRINCIPAL AND INTEREST AS FOLLOWS:

"(A) ON THE DATE OF THIS AGREEMENT THE GOVERNMENT OF INDIA SHALL DEPOSIT RS.( ) INTO A NEW ACCOUNT IN FAVOR OF THE GOVERNMENT OF THE UNITED STATES OF AMERICA WITHIN THE PUBLIC DEBT ACCOUNT OF THE GOVERNMENT OF INDIA AT THE RESERVE BANK OF INDIA, SUCH ACCOUNT TO BEAR NO INTEREST (THE "RUPEE ACCOUNT").

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(EXPLANATORY NOTE FOR EMBASSY - NOT FOR INCLUSION IN AGREEMENT: THE AMOUNT OF RUPEES TO BE INSERTED IN THE ABOVE PARA 2 (A) WOULD BE THE TOTAL NUMBER OF NON-PL-480 RUPEES LESS \$500 MILLION TIMES THE EXCHANGE RATE IN EFFECT ON THE AGREEMENT DATE.)

"(B) IN ADDITION, ON THE DATE OF THIS AGREEMENT THE GOVERNMENT OF INDIA SHALL ESTABLISH AT THE RESERVE BANK OF INDIA A DOLLAR DENOMINATED ACCOUNT IN FAVOR OF THE GOVERNMENT OF THE UNITED STATES OF AMERICA IN THE AMOUNT OF \$500 MILLION. THEREAFTER, ON THE FIRST BUSINESS DAY IN INDIA FOLLOWING THE ANNIVERSARY DATE OF THIS AGREEMENT IN EACH OF THE YEARS 1975 THROUGH 1984, INCLUSIVE, THE GOVERNMENT OF INDIA SHALL CAUSE THE RESERVE BANK OF INDIA TO DEBIT THE DOLLAR DENOMINATED ACCOUNT IN THE AMOUNT OF \$50 MILLION AND TO DEPOSIT IN THE RUPEE ACCOUNT AN AMOUNT OF INDIAN RUPEES EQUIVALENT TO THE DEBITED \$50 MILLION CALCULATED AT THE APPLICABLE EXCHANGE RATE IN EFFECT ON SUCH ANNIVERSARY DATE.

"(C) FOR PURPOSES OF THE PRECEDING PARAGRAPH 2 (B), THE APPLICABLE EXCHANGE RATE ON ANY ANNIVERSARY DATE SHALL BE THE RATE DERIVED BY MULTIPLYING THE SELLING RATE FOR THE UNITED STATES DOLLAR IN TERMS OF THE POUND STERLING IN LONDON ON THE LAST PRECEDING BUSINESS DAY BY THE SELLING RATE IN BOMBAY ON SUCH BUSINESS DAY FOR THE POUND STERLING IN TERMS OF THE INDIAN RUPEE FIXED BY THE RESERVE BANK OF INDIA; PROVIDED, THAT IF THE GOVERNMENT OF INDIA SHALL ESTABLISH AN OFFICIAL DIRECT RATE OF EXCHANGE FOR THE PURCHASE OF INDIAN RUPEES WITH UNITED

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STATES DOLLARS, SUCH RATE ON THE LAST PRECEDING BUSINESS DAY IN INDIA, IF NOT LESS FAVORABLE TO THE GOVERNMENT OF THE UNITED STATES OF AMERICA THAN THE STERLING CROSS-RATE PROVIDED ABOVE, SHALL BE THE APPLICABLE RATE OF EXCHANGE ON ANY ANNIVERSARY DATE; PROVIDED, THAT IF ON ANY ANNIVERSARY DATE THE APPLICABLE EXCHANGE RATE CANNOT BE DERIVED IN ACCORDANCE WITH THE FOREGOING PROVISIONS, IT SHALL BE THE RATE LEGALLY AVAILABLE IN

INDIA ON THE LAST PRECEDING BUSINESS DAY WHICH RESULTS IN THE LARGEST NUMBER OF INDIAN RUPEES FROM THE SALE OF EACH UNITED STATES DOLLAR AND WHICH IS NOT LESS FAVORABLE TO THE GOVERNMENT OF THE UNITED STATES OF AMERICA THAN EXCHANGE RATES OBTAINABLE BY ANY OTHER NATION ON SUCH BUSINESS DAY."

(FOR EMBASSY: YOU WILL NOTE 12 MONTH AVERAGING HAS BEEN DROPPED. THIS ALSO IS CONSISTENT WITH UNDERLYING LOAN AGREEMENTS; ALTHOUGH RISK OF USING SINGLE DAY EXCHANGE RATE MAY RESULT, IT CLEARLY GOES BOTH WAYS, AND IT WOULD

AFFECT ONLY ONE-TENTH OF WHOLE AMOUNT, ASSUMING ONLY ONE MAJOR EXCHANGE RATE CHANGE. ALSO, NOTE THAT THIS FORMULATION REQUIRES RENUMBERING OF PARAS 9, 10 AND 11 AND CORRECTING ALL INTERNAL REFERENCES TO THOSE PARAS.)

3. YOU WILL NOTE THAT THE FOREGOING MOV PROVISION CONTAINS ITS OWN EXCHANGE RATE FORMULA RATHER THAN CROSS-REFERENCING THE CONVERSION EXCHANGE RATE FORMULA. AFTER RECEIPT OF REF (B), WE WERE PREPARED TO AGREE ON A SINGLE EXCHANGE RATE FORMULA FOR THE ENTIRE AGREEMENT. HOWEVER, IN WORKING ON THE MOV PROVISION, IT WAS DECIDED TO USE THE EXCHANGE RATE FORMULA MOST ADVANTAGEOUS IN THE MOV CASE, WHICH CONSEQUENTLY WOULD BE LEAST ADVANTAGEOUS IN THE CONVERSION CASE. AS NOTED IN REF (C), PARA 4, THIS PECULIARITY RESULTS BECAUSE IN THE MOV CASE RUPEES ARE BEING PURCHASED WITH DOLLARS AND IN THE CONVERSION CASE DOLLARS ARE BEING PURCHASED WITH RUPEES. IT THUS DEVELOPS, IN THE ABOVE EXCHANGE RATE FORMULA, THAT THE RATE WHICH PRODUCES THE LARGEST NUMBER OF RUPEES PER DOLLAR WOULD, IN THE CASE OF CONVERSION, BE LEAST ADVANTAGEOUS TO THE USG. IT WOULD, THEREFORE, BE IN DIRECT  
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CONFLICT WITH THE MOST FAVORED NATION CLAUSE.

4. WE FEEL THE MOST SENSIBLE SOLUTION TO THIS PROBLEM WOULD BE TO RECOGNIZE THAT IN THE CONVERSION EXCHANGE RATE CASE THE APPROPRIATE STERLING CROSS RATE WOULD REFER TO THE BUYING (AS OPPOSED TO SELLING) RATE FOR DOLLARS AND POUNDS. IF THE ABOVE MOV CONVERSION RATE FORMULA IS INSERTED IN PARA 6 (A) OF PART I WITH THE WORDS "SELLING" CHANGED IN BOTH PLACES TO "BUYING", IT WILL THEN BE CONSISTENT TO CHANGE THE PHRASE "RESULTS IN THE LARGEST NUMBER OF INDIAN RUPEES FROM THE SALE OF EACH US DOLLAR" TO "REQUIRES THE FEWEST INDIAN RUPEES FOR THE PURCHASE OF EACH US DOLLAR ". WE SUGGEST YOU TRY THIS OUT ON THE GOI; IF YOU MEET WITH RESISTANCE, YOU MAY, IN PARA 6 (A), CROSS REFERENCE TO THE MOV EXCHANGE

RATE FORMULA, THUS RETAINING THE MOST ADVANTAGEOUS RATE  
FOR MOV. HOWEVER, SOMETHING STILL MUST BE DONE TO  
CORRECT THE INCONSISTENCY CREATED IN THE CASE OF  
CONVERSIONS BY THE MOST FAVORED NATION CLAUSE.

5. IN PARA 2 ABOV  
E E E E E E E

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AGREEMENTS, RUPEE, EXCESS FOREIGN EXCHANGE  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 04 DEC 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** elyme  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Unique ID:** 00  
**Drafter:** ATBROWN  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** n/a  
**From:** STATE  
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**Original Previous Handling Restrictions:** n/a  
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**Reference:** (A) NEW DELHI 14109; (B) NEW DELHI 1, 4033;  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** elyme  
**Review Comment:** n/a  
**Review Content Flags:** ANOMALY  
**Review Date:** 19 DEC 2001  
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**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** RUPEES: MOV  
**TAGS:** EFIN, IN, US  
**To:** NEW DELHI  
**Type:** TE  
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